

Charyl Stockwell Academy

Howell, Michigan

Audited Financial Statements

June 30, 2006

C O N T E N T S

Basic Financial Statements	<u>Page</u>
Independent Auditors Report	i - ii
Management's Discussion and Analysis	iii - viii
Basic Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Combined Balance Sheet - All Fund Types	3
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8 - 17
Supplemental Information	
Independent Auditors Report on Supplemental Information	18
Budgetary Comparison Schedule - All Governmental Funds	19
Schedule of Revenues - Governmental Funds	20
Schedule of Expenditures - Governmental Funds	21 - 23
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance With (<i>Government Auditing Standards</i>)	24 - 25



David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Charyl Stockwell Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Charyl Stockwell Academy, as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements listed in the table of contents. These financial statements are the responsibility of Charyl Stockwell Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Charyl Stockwell Academy as of June 30, 2006, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through viii, and 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charyl Stockwell Academy's basic financial statements. The introductory section, combining and individual non major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2006 on our consideration of Charyl Stockwell Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


Croskey, Lanni & Company, P.C.

September 20, 2006
Rochester, Michigan

Charyl Stockwell Academy

Management Discussion and Analysis

This section of Charyl Stockwell Academy's, "CSA", annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the school's financial statements, which immediately follow this section.

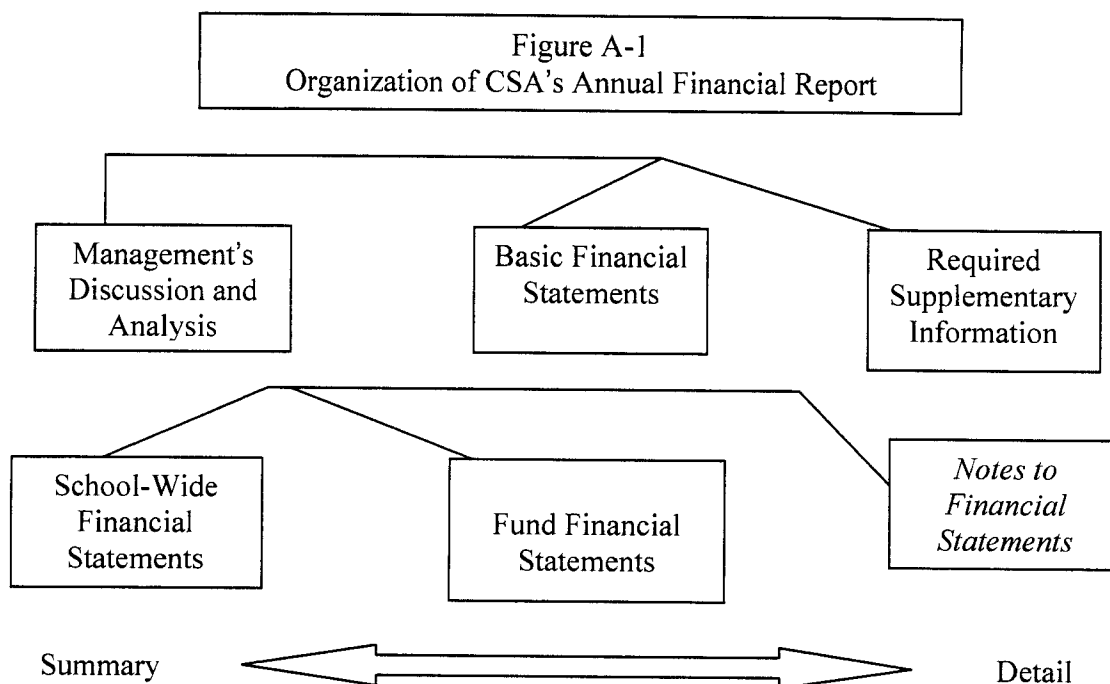
FINANCIAL HIGHLIGHTS

- ❖ The school received a \$175 increase in state aid resulting in a per pupil allowance of \$6,990
- ❖ Student enrollment increased to 611 as compared to 512 last year.
- ❖ The total cost of basic programs was \$1,901,250.
- ❖ Revenues were at \$4,990,895 while expenses were \$ 5,460,996.
- ❖ The school completed a financing of Certificate of Participation with Municipal Capital Markets Group, resulting in proceeds from long term debt in the amount of \$12,805,250.
- ❖ The school expended \$7,022,116 in building improvements that were financed through the Certificates of Participation.
- ❖ The school has a positive fund balance in General Fund of \$431,696 and in the Debt Service fund of \$4,670,351.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements which include two kinds of statements that present different views of the school:

- ❖ The first two statements are school wide financial statements that provide both short-term and long-term information about the school's overall financial status.
- ❖ The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- ❖ The governmental fund statements tell how basic services like regular and special education were financed.
- ❖ Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the school's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2
Major Features of School-Wide and Fund Financial

Fund Financial Statements			
	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school's financial statements, including the portion of the schools activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the school's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school wide statements report the school's net assets and how they have changed. Net assets – the difference between the school's assets and liabilities – are one way to measure the school's financial health or position.

- ❖ Over time, increase or decreases in the school's assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explain the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The comparison of current year to prior year financial information is on the following pages. See tables A-3, A-4, and A-5.

The school's financial position is the product of many factors. The asset depreciation schedule was implemented three years ago as required by GASB 34.

School Governmental

The stability of the school's finances is a result of the following measures:

- ❖ A large increase in enrollment and on waiting list for future academic years.
- ❖ Completion of a large capital improvement project which included complete remodeling of existing structure, an addition of 6,000 classroom space, a 3,000 square foot library and media center and a gymnasium.
- ❖ The school refinanced its long term facility debt to incorporate the new building project. This allowed for capitalized interest for 2005-2006 fiscal year, leading to a substantial fund balance at the end of 2005-2006.

General Fund Budgetary Analysis

Over the course of the year, the school reviewed the annual operating budget several times amending the budget three times. All invoices were paid in a timely matter.

Financial Outlook

Charyl Stockwell Academy's financial forecast continues to be optimistic heading into the 2006/2007 school year.

- ❖ Enrollment continues to grow with an estimated enrollment of 675. Increase in waiting list for subsequent years.
- ❖ Further refinement of academic program including Teacher Support Team and Gifted Program.
- ❖ The State of Michigan anticipates an increased by \$210 per student in state aid.

Appendix A

Table A-3
CSA's Net Assets

	2006	2005
Current and other assets	\$ 6,438,092	\$ 1,863,525
Capital assets	11,258,773	3,929,715
Total assets	17,696,865	5,793,240
Long-term debt outstanding	16,758,195	4,374,526
Other liabilities	1,449,564	1,461,554
Total liabilities	18,207,759	5,836,080
Net assets:		
Invested in capital assets, net of related debt	(5,499,422)	-
Restricted	4,927,261	352,855
Unrestricted	61,267	(395,695)
Total net assets	\$ (510,894)	\$ (42,840)

Table A-4
Changes in CSA's Net Assets

	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 275,320	\$ 64,205
Federal and state operating grants	547,484	620,156
General revenues:		
State aid - unrestricted	4,086,854	3,276,243
Miscellaneous	81,237	42,800
Total revenues	4,990,895	4,002,048
Expenses:		
Instruction	1,661,561	1,269,569
Special Education	239,689	259,641
Support services	538,022	595,809
General Administration	14,717	20,447
Executive Administration	284,512	491,441
Building Administration	235,688	211,287
Business Support Services	365,573	33,633
Operation and Maintenance	414,007	372,163
Transportation	-	2,016
Before and After School Care	133,210	65,673
Interest on long-term debt	1,179,538	333,126
Depreciation	361,109	165,221
Total expenses	5,460,996	3,857,157
Change in net assets	\$ (470,101)	\$ 146,247

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006, the school had invested \$12,275,890 in capital assets, including computers and software. See table A-5 below for a listing of capital assets, and the accumulated depreciation.

Table A-5 CSA's Capital Assets			
	<u>Cost</u>	<u>Accumulated and Depreciated</u>	<u>Net Book Value</u>
Land	\$ 1,472,000	\$ -	\$ 1,472,000
Buildings	9,434,702	610,428	8,824,274
Equipment	701,137	365,863	335,274
Loan Issuance Costs	<u>668,051</u>	<u>40,825</u>	<u>627,226</u>
Total	<u>\$12,275,890</u>	<u>\$1,017,116</u>	<u>\$11,258,774</u>

Long-Term Debt

At year end the school had debt of \$16,758,195 consisting of certificates of participation, modular loans and capital leases further described in Note 8 to the financial statements.

- ❖ The school continued to pay down its debt, retiring \$674,531 of the certificates, modular loans and leases.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- ❖ Continuation of positive enrollment trends
- ❖ State aid foundation grant stabilization
- ❖ Completion of capital improvement project, increasing facility capacity to 825 students, the addition of a gymnasium, music room, art room and library.
- ❖ Ability to refinance existing certificates of participation and Partners Building loan into the capital improvement loan.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the school's office at:

Charyl Stockwell Academy, 9758 East Highland Road, Howell MI 48843

CHARYL STOCKWELL ACADEMY

STATEMENT OF NET ASSETS JUNE 30, 2006

ASSETS

Current Assets

Cash and cash equivalents	\$ 430,616
Investments	4,929,061
Accounts receivable	113,800
Due from other governmental units	765,198
Prepaid expenses	199,417
	<hr/>
Total current assets	6,438,092

Facilities, Furniture and Equipment

At cost less accumulated depreciation of \$976,292	10,631,547
--	------------

Other Assets

Capitalized loan costs less accumulated amortization of \$40,825	627,226
	<hr/>
Total assets	<u>\$ 17,696,865</u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 29,380
Notes payable	1,025,663
Other accrued expenses	394,521
Long-term debt - current portion	183,717
	<hr/>
Total current liabilities	1,633,281

Long-Term Debt - Long-Term Portion	16,574,478
---	-------------------

Net Assets

Invested in capital assets, net of related debt	(5,499,422)
Restricted for debt service	4,929,061
Unrestricted	59,467
	<hr/>
Total net assets	(510,894)
	<hr/>
Total liabilities and net assets	<u>\$ 17,696,865</u>

See accompanying notes to financial statements

CHARYL STOCKWELL ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Government Type Activities
Elementary school	\$ 1,661,561	\$ -	\$ 877	\$ (1,660,684)
Special education	239,689	-	193,510	(46,179)
Support services	538,022	-	353,097	(184,925)
General administration	14,717	-	-	(14,717)
Executive administration	284,512	-	-	(284,512)
Building administration	235,688	-	-	(235,688)
Business support services	365,573	-	-	(365,573)
Operations and maintenance	414,007	-	-	(414,007)
Data processing services	33,370	-	-	(33,370)
Custody and care of children	133,210	95,095	-	(38,115)
Depreciation	320,284	-	-	(320,284)
Amortization	40,825	-	-	(40,825)
Interest	1,179,538	180,225	-	(999,313)
Total primary government	<u>\$ 5,460,996</u>	<u>\$ 275,320</u>	<u>\$ 547,484</u>	<u>(4,638,192)</u>
General Purpose Revenues:				
State school aid - unrestricted				4,086,854
Donations				30,000
Miscellaneous				<u>51,237</u>
Total general purpose revenues				<u>4,168,091</u>
Deficiency of revenues over expenses				(470,101)
Net assets, July 1, 2005				<u>(40,793)</u>
Net assets, June 30, 2006				<u>\$ (510,894)</u>

See accompanying notes to financial statements

CHARYL STOCKWELL ACADEMY

COMBINED BALANCE SHEET - ALL FUND TYPES JUNE 30, 2006

ASSETS

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Cash and cash equivalents	\$ 430,616	\$ -	\$ -
Investments	-	4,670,351	258,710
Accounts receivable	113,800	-	-
Due from other governmental units	765,198	-	-
Prepaid expenses	199,417	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,509,031</u>	<u>\$ 4,670,351</u>	<u>\$ 258,710</u>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 29,380	\$ -	\$ -
Notes payable	1,025,663	-	-
Other accrued expenses	22,292	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,077,335	-	-

Fund Balances

Reserved for debt service	-	4,670,351	-
Reserved for capital projects	-	-	258,710
Unreserved:			
Undesignated	431,696	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 1,509,031</u>	<u>\$ 4,670,351</u>	<u>\$ 258,710</u>

See accompanying notes to financial statements

CHARYL STOCKWELL ACADEMY

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Amounts reported for governmental activities in the statement of net assets are different because:

Total Governmental Fund Balances	\$ 5,360,757
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$11,607,839 and the accumulated depreciation is \$976,292.	10,631,547
Intangible assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the asset is \$668,051 and the accumulated amortization is \$40,825.	627,226
Interest is not payable until due in governmental activities and, therefore, is not recorded in the funds.	(372,229)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(16,758,195)</u>
Net Assets of Governmental Activities	<u>\$ (510,894)</u>

See accompanying notes to financial statements

CHARYL STOCKWELL ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Revenues			
Local sources	\$ 269,485	\$ 180,225	\$ -
State sources	4,191,624	-	-
Federal sources	349,561	-	-
Total governmental fund revenues	4,810,670	180,225	-
Expenditures			
Elementary school	1,661,561	-	-
Special education	239,689	-	-
Support services	538,022	-	-
General administration	14,717	-	-
Executive administration	284,512	-	-
Building administration	235,688	-	-
Business support services	365,573	-	668,051
Operations and maintenance	414,007	-	-
Data processing services	33,370	-	-
Custody and care of children	133,210	-	-
Capital outlay	301,144	-	6,720,972
Debt principal and interest	389,013	1,092,829	-
Total governmental fund expenditures	4,610,506	1,092,829	7,389,023
Deficiency of revenues over expenditures	200,164	(912,604)	(7,389,023)
Other Financing Sources (Uses)			
Proceeds from long-term debt	254,750	5,157,517	7,647,733
Operating transfers in	-	72,583	-
Operating transfers out	(72,583)	-	-
Total other financing sources	182,167	5,230,100	7,647,733
Excess of revenues and other financing sources over expenditures and other financing uses	382,331	4,317,496	258,710
Fund balance, July 1, 2005	49,365	352,855	-
Fund balance, June 30, 2006	\$ 431,696	\$ 4,670,351	\$ 258,710

See accompanying notes to financial statements

CHARYL STOCKWELL ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$ 4,958,537
---	---------------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 7,022,116	
Depreciation expense	<u>(320,284)</u>	6,701,832

Governmental funds report loan issuance costs as expenditures. However, in the statement of activities, intangible assets are capitalized and the cost is allocated over their estimated useful lives and reported as amortization expense. This is the amount by which loan issuance costs exceeded amortization in the current period.

Loan issuance costs	\$ 668,051	
Amortization expense	<u>(40,825)</u>	627,226

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Proceeds from long-term debt	\$ (13,060,000)	
Interest expense	(372,227)	
Principal payments on long-term debt	<u>674,531</u>	<u>(12,757,696)</u>

Change in Net Assets of Governmental Activities	<u>\$ (470,101)</u>
--	----------------------------

See accompanying notes to financial statements

CHARYL STOCKWELL ACADEMY

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2006**

ASSETS

Cash and cash equivalents	\$ 13,665
Total assets	<u>\$ 13,665</u>

LIABILITIES

Due to student groups	\$ 13,665
Total liabilities	<u>\$ 13,665</u>

CHARYL STOCKWELL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies

The accounting policies of Charyl Stockwell Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant

Reporting Entity

Charyl Stockwell Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on June 5, 1996, and began operation in July 2002.

In June 2002, the Academy entered into a five-year contract with Central Michigan University's Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Central Michigan University's Board of Trustees three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2006 were approximately \$122,660.

In July 2001, the Academy entered into a five year agreement with Smart Schools Management, Inc. Under the terms of this agreement, Smart Schools Management, Inc. provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay Smart Schools Management, Inc. a fee of 12% of its total received from the state through the termination of the contract. In 2004, Smart Schools Management, Inc. assigned and transferred to CS Partners, LLC, all of its rights, duties and obligations under the agreement with the Academy. The total paid for these services amounted to approximately \$490,470 for the year ended June 30, 2006.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy has elected to specify all of its funds as major.

CHARYL STOCKWELL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation - Fund Accounting

The accounts of the Academy are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

Governmental Funds

A Governmental Fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Debt Service Fund - The Debt Service Fund is used to record certain revenue and the payment of interest, principle and other expenditures on long-term debt.

Governmental Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and so recognized as revenue in accordance with state law. A major portion of the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon continued qualification for such aid.

CHARYL STOCKWELL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Government Wide Financial Statements

The Academy is required to implement GASB Statement No. 34 during the year ended June 30, 2004. The implementation of this pronouncement requires additional statements, schedules and reconciliation's in addition to the traditional fund statements. The additional required information is described in greater detail in the following paragraphs.

The government-wide financial statements (i.e. the statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation's with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy.

Net assets should be reported as restricted when constraints placed on net asset use are either externally, imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition.

Receivables

Receivables at June 30, 2006 consist primarily of state school aid due from the State of Michigan. All receivables are expected to be fully collected in July and August of 2006 and are considered current for the purposes of these basic financial statements.

CHARYL STOCKWELL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is recorded in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than 1 year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 - 50 years
Furniture and equipment	3 - 15 years
Computers and software	3 - 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

CHARYL STOCKWELL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - Summary of Significant Accounting Policies - Continued

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - Stewardship, Compliance and Accountability

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. During the year ended June 30, 2006 the budget was amended in a legally permissible manner.

The budget statement (budgetary comparison schedule - all governmental funds) is presented on the combined statement of revenue, expenditures, and fund balances, significant budget overruns are as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund		
Elementary school	\$ 1,591,101	\$ 1,661,561
Debt principal and interest	383,604	389,013

CHARYL STOCKWELL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 - Deposits and Investments

The Academy maintains cash balances at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per financial institution. The Academy's uninsured cash balance as of June 30, 2006 amount to \$334,594. The Academy's investments at June 30, 2006 were comprised of fund shares that had a carrying amount and market value of \$4,929,061. These investments are held by a trustee for debt service on the Certificates of Participation as described in Note 8. The investments are in mutual funds that invest solely in US Treasury obligations.

NOTE 4 - Due From Other Governmental Units

Amounts owed from governmental units and other consist of the following:

State aid	\$ 743,473
At risk	802
Special education	<u>20,923</u>
Total	<u>\$ 765,198</u>

NOTE 5 - Notes Payable

The Academy has obtained two lines of credit from a financial institution. The lines were issued to provide the Academy with operating money during the school year. The first line, issued for \$400,000, has a term of one year, with principal payments of \$100,000 beginning on October 23, 2006, with a final payment on March 23, 2007. The second line, issued for \$1,000,000, has a term of one year, with principal payments of \$150,000 beginning on April 6, 2006, with a final payment on July 6, 2006. Interest on both lines is calculated at 6% and 5% respectively. Security for the lines is provided through future state aid payments. The total amounts outstanding on the lines at June 30, 2006 amounted to \$354,100 and \$550,000 respectively.

The Academy has also obtained an additional business loan through the Michigan Public Education Facilities Authority amounting to \$1,200,000. The loan was issued to provide the Academy with funds to finance school operations during the year. The loan is payable \$121,563 per month, including interest at 6.26% through July 2006. Security for the loan is provided through future state aid payments. The amount outstanding on the loan at June 30, 2006 was \$121,563.

CHARYL STOCKWELL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5 - Notes Payable - Continued

Notes payable as of June 30, 2006 can be summarized as follows:

	Balance July 1, 2005	Additions	Retirements and Payments	Balance June 30, 2006
Loan 1	\$ 600,000	\$ -	\$ 600,000	\$ -
Loan 2	579,611	-	579,611	-
Loan 3	-	354,100	-	354,100
Loan 4	-	1,000,000	450,000	550,000
MPEFA loan	-	1,200,000	1,078,437	121,563
Total notes payable	<u>\$ 1,179,611</u>	<u>\$ 2,554,100</u>	<u>\$ 2,708,048</u>	<u>\$ 1,025,663</u>

NOTE 6 - Accrued Expenses

Amounts accrued at year end consist of the following:

	Net Assets	Fund Level
University oversight	\$ 22,292	\$ 22,292
Interest	372,229	-
Total accrued expenses	<u>\$ 394,521</u>	<u>\$ 22,292</u>

NOTE 7 - Capital Assets and Depreciation

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2005	Additions	Balance June 30, 2006
Computers	\$ 338,975	\$ 118,297	\$ 457,272
Software	9,752	27,694	37,446
Furniture and fixtures	41,413	-	41,413
Equipment	26,305	138,701	165,006
Loan issuance costs	-	668,051	668,051
Land	800,000	672,000	1,472,000
Building and improvements	<u>3,369,278</u>	<u>6,065,424</u>	<u>9,434,702</u>
Total cost	4,585,723	7,690,167	12,275,890
Less accumulated depreciation	<u>656,008</u>	<u>361,109</u>	<u>1,017,117</u>
Undepreciated cost	<u>\$ 3,929,715</u>	<u>\$ 7,329,058</u>	<u>\$ 11,258,773</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

CHARYL STOCKWELL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8 - Long-Term Obligations Payable

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements & Payments</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Business loan 1	\$ 588,537	\$ -	\$ 89,720	\$ 498,817	\$ 95,332
Business loan 2	95,625	-	95,625	-	-
Business loan 3	-	65,000	-	65,000	14,253
Business loan 4	-	190,000	-	190,000	30,760
Capital lease 1	130,000	-	130,000	-	-
Capital lease 2	320,000	-	320,000	-	-
Capital lease 3	76,313	-	18,592	57,721	20,573
Capital lease 4	82,251	-	20,594	61,657	22,799
Certificates of participation	3,080,000	12,805,000	-	15,885,000	-
Total long-term debt	<u>\$ 4,372,726</u>	<u>\$ 13,060,000</u>	<u>\$ 674,531</u>	<u>\$ 16,758,195</u>	<u>\$ 183,717</u>

The Academy has obtained a business loan from an unrelated third party bearing interest at 6%, and payable in monthly installments of \$10,254 through February 2011.

The Academy has obtained two additional business loans from an unrelated third party bearing interest at .8% above the bank's prime rate, adjusted monthly, and payable in monthly installments of \$1,590 and \$4,000 through June 2010 and June 2011, respectively.

The Academy has issued certificates of participation that require semi annual interest payments at 5.7%. The interest payments are due on November 1 and May 1 and an annual payment of principal of approximately \$55,000 is due on May 1, 2005. The certificates are collateralized by the Academy's facility as well as a pledge for 20% of state school aid payments and funds are held in trust for debt service.

Following are maturities of long-term obligations for principal and interest for the next five years:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 183,717	\$ 804,418
2008	199,243	788,892
2009	3,270,273	773,212
2010	174,150	760,435
2011	125,812	748,677
2012 - 2016	1,020,000	3,645,375
2017 - 2021	1,655,000	3,268,263
2022 - 2026	2,200,000	2,733,225
2027 -2031	2,945,000	2,012,490
2032 - 2036	4,985,000	1,031,025

CHARYL STOCKWELL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 9 - Capital Lease Agreements

The Academy is the lessee of various classroom and office equipment held under capital lease agreements. The lease is collateralized by the equipment, bearing interest at 10% and expiring during the year ended June 30, 2009.

Minimum future lease agreements under capital leases as of June 30, 2006 for each of the next three years:

2007	\$	53,550
2008		53,550
2009		<u>28,900</u>
Subtotal		136,000
Less amount representing interest		<u>16,622</u>
Present value of minimum lease payments	\$	<u><u>119,378</u></u>

NOTE 10 - Retirement Plan

All leased employees of the Academy are eligible to participate in a retirement plan established by the management company which qualifies under the provisions of section 401(k). Eligible employees may contribute up to 15% of their salaries under the terms of this plan. The Academy can elect to contribute to the employees at its discretion. The Academy's contributions to the plan for the year ended June 30, 2006 amounted to \$111,670.

CHARYL STOCKWELL ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 11 - Interfund Transfers

During the normal course of the school year the Academy transferred amounts between its two major funds as follows:

	<u>General</u>	<u>Debt Service</u>
Transfer In	\$ -	\$ 72,583
Transfer Out	72,583	-

NOTE 12 - Risk Management

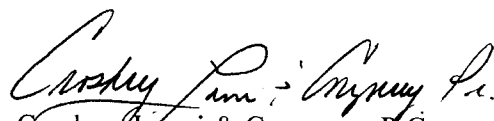
The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA

**To the Board of Directors
of Charyl Stockwell Academy**

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

We have audited the accompanying basic financial statements of Charyl Stockwell Academy for the year ended June 30, 2006. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Charyl Stockwell Academy. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.


Croskey, Lanni & Company, P.C.

September 20, 2006
Rochester, Michigan

CHARYL STOCKWELL ACADEMY

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General Fund		
	Original Budget	Final Budget	Actual
Revenues			
Local sources	\$ 270,262	\$ 211,162	\$ 269,485
State sources	4,085,518	4,171,922	4,191,624
Federal sources	495,950	453,596	349,561
Total governmental fund revenues	4,851,730	4,836,680	4,810,670
Expenditures			
Elementary school	1,515,735	1,591,101	1,661,561
Special education	243,771	249,869	239,689
Support services	704,496	713,598	538,022
General administration	19,000	17,900	14,717
Executive administration	600,300	284,512	284,512
Building administration	220,531	241,860	235,688
Business support services	37,000	368,577	365,573
Operations and maintenance	380,755	430,019	414,007
Data processing services	40,000	40,000	33,370
Custody and care of children	158,906	147,000	133,210
Capital outlay	50,000	390,000	301,144
Debt principal and interest	232,300	383,604	389,013
Total governmental fund expenditures	4,202,794	4,858,040	4,610,506
Excess (deficiency) of revenues over expenditures	648,936	(21,360)	200,164
Other Financing Sources (Uses)			
Proceeds from long-term debt	-	260,000	254,750
Operating transfers in	-	-	-
Operating transfers out	(335,000)	(75,000)	(72,583)
Total other financing sources (uses)	(335,000)	185,000	182,167
Excess of revenues and other financing sources over expenditures and other uses	313,936	163,640	382,331
Fund balance, July 1, 2005	49,365	49,365	49,365
Fund balance, June 30, 2006	\$ 363,301	\$ 213,005	\$ 431,696

See independent auditors report on supplemental information

Debt Service Fund			Capital Projects Fund		
Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
\$ -	\$ -	\$ 180,225	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	180,225	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	668,051
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	6,720,972
335,000	75,000	1,092,829	-	-	-
335,000	75,000	1,092,829	-	-	7,389,023
(335,000)	(75,000)	(912,604)	-	-	(7,389,023)
-	-	5,157,517	-	-	7,647,733
335,000	75,000	72,583	-	-	-
-	-	-	-	-	-
335,000	75,000	5,230,100	-	-	7,647,733
-	-	4,317,496	-	-	258,710
352,855	352,855	352,855	-	-	-
\$ 352,855	\$ 352,855	\$ 4,670,351	\$ -	\$ -	\$ 258,710

CHARYL STOCKWELL ACADEMY

SCHEDULE OF REVENUES - ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Local Sources			
Special education	\$ 93,153	\$ -	\$ -
Donations	30,000	-	-
Miscellaneous	51,237	-	-
After school care	95,095	-	-
Earnings on investment	-	180,225	180,225
Total local sources	269,485	180,225	180,225
State Sources			
State aid	4,086,854	-	-
Special education	100,357	-	-
At risk	4,413	-	-
Total state sources	4,191,624	-	-
Federal Sources			
Title IIA	6,696	-	-
Title V	208	-	-
Character education grant	341,780	-	-
Drug free school grant	877	-	-
Total federal sources	349,561	-	-
Total governmental fund revenues	<u>\$ 4,810,670</u>	<u>\$ 180,225</u>	<u>\$ 180,225</u>

See independent auditor's report on supplemental information

CHARYL STOCKWELL ACADEMY

SCHEDULE OF EXPENDITURES - ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED JUNE 30, 2006

	General	Debt Service	Capital Projects
Elementary School			
Purchased services - salaries	\$ 1,179,920	\$ -	\$ -
Purchased services - benefits	249,397	-	-
Purchased services - payroll taxes	92,576	-	-
Teaching supplies and textbooks	69,146	-	-
Dues and fees	1,542	-	-
Equipment lease	44,371	-	-
Capital outlay - nondepreciable	24,609	-	-
Total elementary school	1,661,561	-	-
Special Education			
Purchased services - salaries	166,533	-	-
Purchased services - benefits	58,299	-	-
Purchased services - taxes	14,857	-	-
Total special education	239,689	-	-
Support Services			
Purchased services - salaries	225,068	-	-
Purchased services - benefits	34,138	-	-
Purchased services - taxes	26,397	-	-
Outside services	174,999	-	-
Staff development	63,790	-	-
Printing and reproduction	1,845	-	-
Teaching supplies and materials	4,585	-	-
Workshops & conferences	7,200	-	-
Total support services	538,022	-	-
General Administration			
Professional fees	14,495	-	-
Miscellaneous	222	-	-
Total general administration	14,717	-	-

See independent auditor's report on supplemental information

CHARYL STOCKWELL ACADEMY

SCHEDULE OF EXPENDITURES - ALL GOVERNMENTAL FUND TYPES - Continued FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Executive Administration			
University oversight	122,656	-	-
Management fees	161,856	-	-
Total executive administration	284,512	-	-
Building Administration			
Purchased services - salaries	137,936	-	-
Purchased services - benefits	15,391	-	-
Purchased services - payroll taxes	12,072	-	-
Workshops & conferences	3,337	-	-
Postage & delivery	7,868	-	-
Advertising	39,840	-	-
Supplies and other	15,102	-	-
Dues & fees	4,142	-	-
Total building administration	235,688	-	-
Business Support Services			
Outside services	328,616	-	-
Liability insurance	24,457	-	-
Bank fees	12,500	-	-
Loan issuance costs	-	-	668,051
Total business support services	365,573	-	668,051
Operations and Maintenance			
Purchased services - salaries	74,209	-	-
Purchased services - benefits	18,162	-	-
Purchased services - payroll taxes	7,268	-	-
Outside services	89,648	-	-
Repair and maintenance	56,622	-	-
Utilities	133,201	-	-
Telephone	15,508	-	-
Supplies and materials	10,196	-	-
Capital outlay - nondepreciable	9,193	-	-
Total operations and maintenance	414,007	-	-

See independent auditor's report on supplemental information

CHARYL STOCKWELL ACADEMY

SCHEDULE OF EXPENDITURES - ALL GOVERNMENTAL FUND TYPES - Continued
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Data Processing Services	33,370	-	-
Custody and Care of Children			
Purchased services - salaries	96,827	-	-
Purchased services - benefits	22,896	-	-
Purchased services - payroll taxes	11,436	-	-
Supplies and materials	2,051	-	-
Total custody and care of children	133,210	-	-
Capital Outlay			
Elementary school	164,765	-	-
Operations and maintenance	136,379	-	-
Site improvements	-	-	6,720,972
Total capital outlay	301,144	-	6,720,972
Debt Principal and Interest	389,013	1,092,829	-
Total governmental fund expenditures	<u>\$ 4,610,506</u>	<u>\$ 1,092,829</u>	<u>\$ 7,389,023</u>

See independent auditor's report on supplemental information



David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA

Independent Auditor's Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

**To the Board of Directors
of Charyl Stockwell Academy**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Charyl Stockwell Academy as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Charyl Stockwell Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charyl Stockwell Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the board of directors and others within the Academy and is not intended to be and should not be used by anyone other than these specified parties.


Croskey, Lanni & Company, P.C.

September 20, 2006
Rochester, Michigan